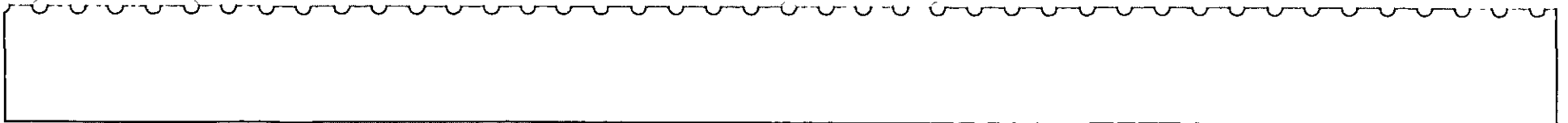


Late Backup

*National Financial Market Collapse
& Impact on City of Austin*

October 16th, 2008



Market Update

Public Financial Management, Inc.



- Since July 2007:
 - Substantial world market capital losses
 - 16 FDIC insured institutions have failed
 - Outstanding commercial paper volume has dropped 21%
- Nationally, home values have dropped 16.3% since last year.
 - As of June 2008, 6.41% of outstanding mortgages are delinquent
- Most municipal transactions are being delayed until the market stabilizes

The Municipal Industry



- Citigroup, Merrill Lynch, JPMorgan, Goldman Sachs, and Morgan Stanley are the only major Wall Street banks available to purchase securities
- Underwriters are unable/unwilling to put capital to work in support of new money deals

Fixed Rate Bonds

- Long-term fixed rate bond market has slowed significantly
- Only 10 transactions completed in the 1st week of October
- Expect higher debt costs

Variable Rate Bonds

- Limited buyers in the market for Commercial Paper and Variable Rate Bonds
- SIFMA rates have varied from 1.70% to 7.96% to the current rate of 4.82%

Moving Forward



- City is well positioned to wait out the transactions related to General Obligation debt needs
 - Next sale not until August 2009
- Financial advisor working with the City to implement short-term strategies to fund Utility CIP projects as planned, while minimizing interest costs
 - Focus on utilities and other enterprise funds
 - Commercial paper
 - Variable rate debt

Local Economic Factors

- Employment growth has slowed
 - 1.9% estimate for 2008, down from a high of 5.6% in 2006
- Housing market softens ... but does not crash
 - MSA home sales for 2008 down compared to last 3 years
 - But have not seen a decline in home prices

Near-Term Outlook

- Austin will be impacted by national recession ... but still well positioned
 - Too soon to assess impact of financial crisis/economic slowdown on migration to Austin area
 - Tourism continues to be a bright spot

Investments & Banking

- Texas Municipal Investing Activity is Governed by the Texas Public Funds Investment Act
 - Cannot invest in the stock market
- City of Austin Prioritized Investment Policy Objectives
 - Preservation of Capital and Protection of Principal
 - Liquidity to Meet Operating Needs
 - Diversification of Investments
 - Maximize Interest Income
- Year-To-Date 2008 Yield = 4.04%
- City's bank balances with Bank of America are secure
 - Collateral agreement supplies \$10 million in additional coverage for daily cash balances

Pensions

- Pension funds are long-term - It is common to measure pension fund performance over 20 or 30 year horizon
- Will not reduce current monthly annuity payments to retirees or current employee eligibility criteria
 - May impact ability to grant future retiree COLAs
- Additional City contributions may be needed to help mitigate financial impact over time

Debt Management

General Obligation Bonds

- Most Recent Bond Election: Voters Approved \$567 million in 2006
- Debt is Issued through Annual GO Bond Sale
 - August 2008 Bond Sale Results
 - Timely Execution
 - Excellent Pricing Results
 - Next GO Bond Sale – August 2009
 - Interest costs may be higher in future
- Work on 2006 Bond Program will continue

Debt Management

Revenue Bonds for Utility Projects

- Commercial Paper Program
 - Recent spike in rates have subsided, but still higher than prior years
 - Placed \$21.8 million in paper this week at 3% rate
- Long Term Revenue Bonds
 - Backed by Pledge of Revenue (Not Property Taxes)
 - Refunds Commercial Paper or Funds New Projects
 - Issued as Fixed or Variable Rate Debt
 - Most municipal transactions are being delayed until the market stabilizes

Impact on Utility Funds

- Austin Energy has sufficient cash on hand to defer issuance of debt in the near-term until market stabilizes
- Austin Water Utility will eventually need to go to the long-term bond market
 - \$265 million CIP program planned in 2009
- Short-term capacity is available under the City's commercial paper program to sustain CIP expenditures
 - Borrowing funds from Austin Energy can serve as a back-up strategy for Austin Water Utility if rates become volatile or tight credit market continues

FY 2009 Budget

- Property Tax revenue expected to stay on target at \$209.1 million
- Sales Tax revenue budgeted at \$160.8 million
 - 3% growth over FY 2008
 - 1st FY 2009 payment will be in December
 - Concern about weak retail sales
 - Potential for no growth or negative growth
- Enterprise funds incurring higher interest expense
 - Convention Center, Austin Water Utility, Airport
 - Financial advisor working on strategies to minimize costs

FY 2009 – Budget Action Plan

- Preparing for lower sales tax revenue
 - Menu of reduced spending options to be developed in the event of:
 - No sales tax revenue growth, or
 - Negative sales tax revenue growth
 - Significant reduction in spending would impact delivery of City services
- City Manager initiatives underway
 - Aggressive initiative to reduce future costs
 - Assessment of Revenue and Transfer Policies

Next Steps / Discussion

- Continue to keep City Council updated on new developments about the market, the local economy and any estimated impact on the City

Questions / Discussion